

The Bridge to the Future

PHILOM BIOS INC. 2004 ANNUAL REPORT



Our Purpose



MESSAGE TO SHAREHOLDERS

As a famous Zen master observed: "First enlightenment...then, the laundry". While we continue to learn about our complex world of agriculture, we are more effectively translating what we know into what we do.

The foundation of our business is our Purpose Statement which describes why we exist. It is the strategic bedrock which dictates that everything we do must be "on Purpose". Practicing the Purpose with unparalleled service and support is our proven rulebook to help our distributor, retailer, and farmer customers grow their business. The result is clearly evident in our 2004 performance.

I am pleased to report record 2004 revenues at \$12.1 million, a 28% increase over the previous year that resulted in net earnings of \$1.4 million and a healthy 23% return on invested equity. Our inoculants maintained share in an increasing Canadian market. Revenues from our US market more than doubled over last year. Our investment in brand strength continues to pay dividends with Philom Bios inoculants holding the top brand awareness positions in the minds of our customers. Philom Bios leads our marketplace.

Our Bridge to the Future growth strategy is to serve more needs of more customers. To serve more needs we continue our substantial investment in strengthening our technology platforms. Research and product development is delivering enhanced products and an exciting pipeline of new actives and technologies. In the same way that TagTeam, the world's first combination nitrogen and phosphate inoculant, is a "multiple action" innovation, a broader suite of MultiAction™ products delivering enhanced value to our customers is on the immediate horizon. We remain committed to our base market in Western Canada and to growing our business in Eastern Canada. However, the United States is our focus to identify and serve substantially more customers. Building on our solid market base in the US Northern Prairies, aggressive market expansion plans are underway to do this.

Market signals for 2005 are generally discouraging, but not necessarily for our business. While soil moisture levels are probably the best in a decade in Western Canada, the BSE situation, the poor 2004 harvest conditions, and the decline in crop prices have damaged the farm economy. Escalating fertilizer prices are also pressuring growers on both sides of the border, but have the effect of forcing business-driven farmers to increasingly adopt fertility efficiency tools. Farmers must wring maximum value from their fertility dollar. Our products help them do this.

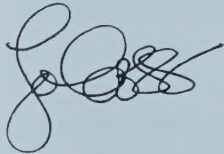
Photo above (left to right): Dave Cortens, CFO; Sanford Gleddie, VP R&BD; Trevor Thiessen, VP Commercial Operations; John Cross, CEO/Chairman; Calvin Sonntag, President.

Serve the needs of individual customers by delivering high value inoculants.

Superior management talent is in place to drive sustainable growth. In concert with the Board of Directors' senior executive succession plans, Mr. Calvin Sonntag joined the Company in February 2004 in the role of President, and will assume the CEO position in January 2005. His experience synergistically complements the skill sets of the other corporate officers, who together provide our Company with a solid range of financial, operations, research, and business development experience. The Executive, supported by proven marketing, manufacturing, development, and corporate teams, has the chemistry and capacity to create increasing enterprise value and translate it into shareholder value.

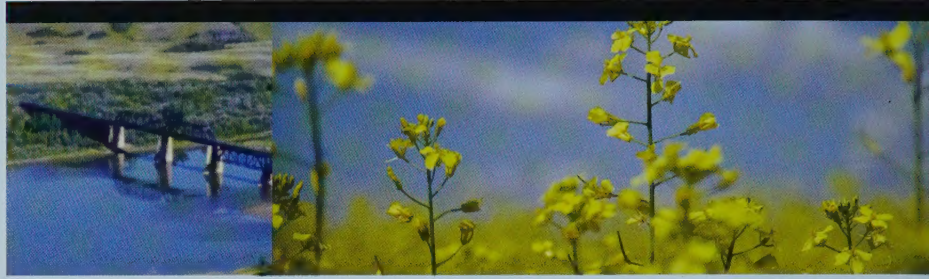
During a field tour last summer a retailer, borrowing a phrase from the world of computers, asked me if I thought our fertility technology was a "killer app". My response was modest at the time, yet it's clear that all the elements of surging market demand are plainly before us: the certain prospect of increasing energy and fertilizer costs over the long term, the imperative of farmers to increase profit per acre, and the pressing reality to reduce environmental impact in agricultural systems. Our products are proven to meet each of these demands. Shareholders can be assured that we have the purpose, the people, and the passion to aggressively exploit this opportunity, to accelerate our business growth, and deliver enhanced value to you.

John Cross



Chairman, CEO
December 10, 2004.

Enterprise Value



Producers live in a changing world. Global population growth and disposable incomes are driving demand for improved diets. The direct and positive effect this is having on demand for crop inputs is evident all around us. Increasing energy, processing and transportation costs are spurring crop nutrition costs to historic highs. Environmental policy shifts continue to guide elements of our food production system in ways that minimize its environmental footprint. Energy security policies will seek to encourage replacement of energy intensive inputs with those that consume less energy on per unit output basis. The pace of innovation that characterizes the inoculant industry is accelerating.

These fundamentals individually are and will positively impact the value of our industry. Their convergence will be profound.

The technologies that we and our inoculant industry colleagues make and market will increase significantly in volume and value over time. The future can be an attractive one – the organizations that successfully innovate will be rewarded. Philom Bios is building a Bridge to that Future.

In building our Bridge to the Future we have identified an enterprise model as an approach to guide our thinking. The model recognizes that we will grow the overall value of our enterprise by developing leadership positions in critically important upstream technology platforms, rapidly growing the value of our development portfolio and driving our current earnings stream.

ENTERPRISE MODEL





TECHNOLOGY PLATFORMS

Philom Bios develops, manufactures and markets premium products, which deliver a high net return on investment for agricultural producers in North America. We lead the marketplace in our category because our high value inoculants deliver a 3 to 1 net return on investment to our customers today. Simply put Philom Bios is, and has always been, about innovation. We are delivering category leading value to our customers today because of investments made in innovation yesterday.

Today several proprietary products dominate our portfolio and provide stability for the future growth of the Company. The naturally occurring soil fungus, *Penicillium bilaii*, provides the foundation for our current success. With this patent protected ingredient in JumpStart and TagTeam, we are the only company in the world that offers inoculants that improve phosphate efficiency. It is a key competitive advantage of our business today.

Our competitive advantage tomorrow will be based, at least in part, on the technologies we invest in today. We are investing heavily in creating leading competencies in the technology platforms that will create significant value for our customers tomorrow. We will deliver category leading value to more and more customers tomorrow because of investments we are making in leading technology platforms today.

DEVELOPMENT PORTFOLIO

Our investment in the research of new products and the development of manufacturing and delivery processes for these products has generated a high return on investment for our shareholders. From 1997 to today, on a cumulative basis our investment in R&BD has delivered a revenue payback of 8 to 1.

Our technology platforms and highly integrated and industry-unique development approach are contributing to the accelerated completion of nine key development projects. Over the course of the next 24 months we plan to launch 8 new products and/or key label extensions targeted at delivering new value to pea, lentil, corn, and soybean producers in North America and beyond.

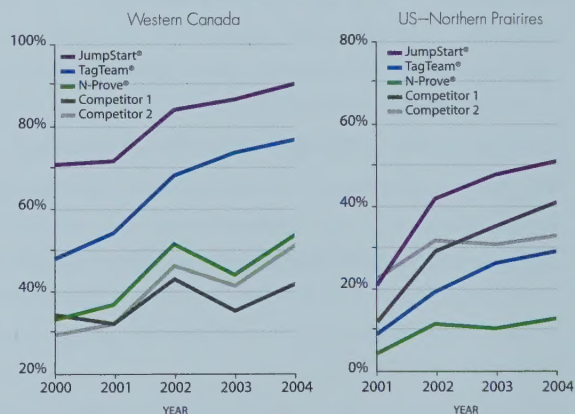


EARNINGS STREAM

Our consistent practice of serving the needs of our customers has lifted Philom Bios to a leadership position. As proof, awareness of our corporate brand on the part of farmers is nearly double that of our competitors in our current markets in Western Canada and the United States. Our leading brands JumpStart®, TagTeam® and N-Prove® also significantly lead their competitors in brand awareness.* Yet, brand awareness is built on more than just advertising. Building our brands is a passionate pursuit for our 70 employees, some 25 of whom are shareholders. Our employees are the strongest link in nurturing the brands and they recognize that every point of customer contact is part of the brand experience.

Our devotion to customer service and brand building sets us apart from other companies. From our office staff and field representatives who put a face to the Company, through to our manufacturing, quality control and administrative groups who work hard to ensure that our premium products perform in the field, our employees are deeply committed to making the Philom Bios brand experience a positive and profitable encounter. Our main driver to growing our earnings is taking that brand experience to more and more customers. Progress on this front continues.

Brand Awareness



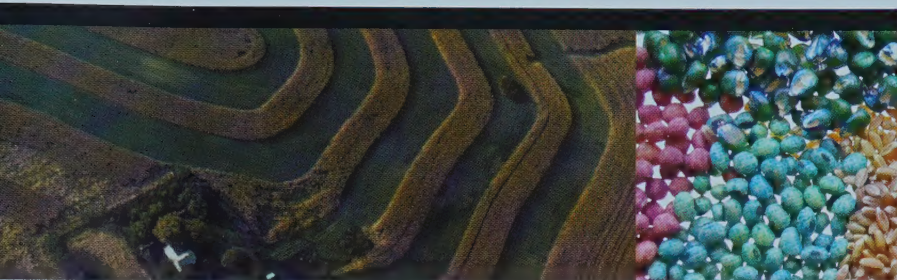
Source: Ipsos Reid Inoculant Market Study.

Expansion of key pulse acres in Western Canada to record levels and continued expansion into the United States is generating significant revenue growth for the Company and were key factors in the 28% sales increase in our 2004 results. Our plan is to continue to pursue new markets within North America and beyond. These vital activities will further contribute to a better net return on investment for our shareholders in the future.

The Company's brand leadership has also attracted the interest of organizations with complimentary technologies. The addition of AGROTAIN®, a product that improves nitrogen fertilizer efficiency, to our product suite is a great example of how our brand reputation allows us to expand and serve more needs of more customers. Others will follow.

*Based on 2004 Ipsos Reid survey results.

From Enterprise Value to Shareholder Value



Growing the value of our enterprise is a tangible manifestation of our Purpose. That said, growing enterprise value without translating that into realizable shareholder value is an unfulfilled promise.

We are committed to providing tangible returns to our shareholders. Our initiatives for 2005 and beyond will deal effectively with under-utilized capital to maximize return on equity. We will also take proactive steps towards building a more transparent and liquid market for our stock – one in which the underlying enterprise value is more fully recognized in our stock price. In that regard, we are developing an active investor relations support framework to simplify access to market trading. This will also help Philom Bios tell our story – informing investors, current and prospective, about the Purpose of our Company, how it's creating value, not only for customers today, but for more and more customers tomorrow.

OUR COMMITMENTS

We are tremendously excited about our Bridge to the Future. Although nothing is risk-free, the course we have charted is coloured by a mindful path of prudent expansion and innovation that seeks to deliver on three commitments:

1. Deliver more value to the customers we have the privilege to serve today.
2. Invest prudently in technologies and growth markets that offer us the opportunity to serve new customers tomorrow.
3. Manage our internal operations with the rigor and discipline that translates the value we create for customers into lasting value for our shareholders.

And after all – we exist to **serve the needs of individual customers by delivering high value inoculants** and by doing so we will create lasting value for our shareholders.

Management Discussion & Analysis



The Management Discussion and Analysis is intended to explain the Company's operating results and financial position for the 2004 fiscal year compared with those for fiscal 2003. Additionally, it provides the reader with an outlook on future trends and risks or other factors that may affect business operations with information available up to December 10, 2004. The following discussion and analysis should be read in conjunction with the consolidated financial statements and accompanying notes contained in this annual report. The Company's consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and have been reviewed by the Company's Audit Committee and approved by its Board of Directors. All amounts are in Canadian dollars unless indicated otherwise. Additional information on the Company is available on SEDAR at www.sedar.com.

BUSINESS DESCRIPTION

Philom Bios Inc. is a Canadian public company "serving the needs of individual customers by delivering high value inoculants". Inoculants are naturally occurring micro-organisms derived from the soil, which are applied to, or with, the seed at the time of seeding to enhance plant growth by accessing important nutrients like nitrogen and phosphate.

The Company's product suite comprises a range of our own manufactured inoculants together with other third party products, most significantly AGROTAIN, a nitrogen stabilizer. The Company's inoculant products are used on a wide range of agricultural crops, rewarding our customers with enhanced fertility efficiency, increased yields, and improved profitability.

Founded on a solid, knowledge-based, sales representative network that supports and educates our farm customer and all levels of distribution, the Company's products are sold through leading agriculture distributors and retailers in Canada, the United States, and licensees in other countries.



The long-term success of the Company and our strong market position clearly validate the effectiveness and value of our products in a challenging, and often uncertain, agricultural market. However, recognizing that to stand still is to go backward, we also commit sizeable resources to strategic research and business development investments. By clear delineation of our Research and Business Development group apart from Commercial Operations we are able to effectively and efficiently serve our current customers and current markets, while still maintaining focus on new product and technology development to ensure even greater success over a widening range of crops and new markets.

Under provincial securities law, the Company is considered a public company and, as such is required to make continuous disclosure to the public of our annual and quarterly financial statements, and any material changes in our business or operations. Although not listed on any stock exchange, the shares of the Company are freely tradeable with few restrictions providing our shareholders and other investors the opportunity to participate in the benefits of equity ownership.

KEY PERFORMANCE DRIVERS

The measure of our success is our ability to create shareholder value, most typically evaluated in financial terms, such as revenue growth, gross margins, net earnings and return on shareholder's equity. However, management also closely monitors wider industry performance metrics related to size and share of market and level of brand recognition. Additionally, the Company has adopted a disciplined project management process for quantitative and qualitative analysis of Research and Business Development projects to ensure we achieve a high return on these long-term investments. Fully aware of our continuing responsibility to allocate resources for either reinvestment or distribution, management is committed to a balance of delivering a superior return on equity on an annual basis, without sacrificing the need for future investment to achieve our growth targets.

INTELLECTUAL ASSETS

As a knowledge-based company, Philom Bios' greatest assets do not appear on the balance sheet. Our proprietary know-how and intellectual capacity is the foundation of our present success and future potential. These assets include patents, technology license agreements, corporate and product trademarks, product registrations, confidentiality disclosure agreements with corporate, academic and institutional bodies, and proprietary processes and manufacturing systems. The core of our marketing success is our relationships with our distributors and retailers, and our intensive customer database. Yet the most powerful asset is our people. The staff complement, many of whom are long-term, is a multidisciplinary array of all the scientific, technical, marketing, and business skills essential to build a dynamic enterprise. The blending of these skills into a customer-driven focus is our business model. Individual and collective commitment to the Purpose and the standards of the Company makes the business model work. Philom Bios' people are our greatest competitive advantage.

MAJOR ACHIEVEMENTS IN 2004

A summary of major achievements over the past year include:

- Significant growth: sales up 28% to record highs.
- Earnings growth on target: net earnings of \$1.4 million are second highest in Company history.
- Market share: share of overall market served by Philom Bios products is up two points on the prior year.
- Successful introduction of new products: AGROTAIN and N-Prove liquid formulations added to revenues and customer base.
- Strengthened executive team: hired a new President and Chief Financial Officer.
- Operations structure/systems improvements: improved human resources programs and streamlined certain departmental functions to improve operating effectiveness and efficiency.

CRITICAL ACCOUNTING ESTIMATES

REVENUE RECOGNITION

The Company recognizes revenue from the sale of goods when goods are shipped based on prices established by annual product offers set each fiscal year. Annual net sales are not completely determined until early order discounts are established at time of collection and inventory support payments are calculated.

INVENTORY SUPPORT

Consistent with industry practices, the Company offers its customer's inventory protection to ensure sufficient product is available in the distribution channels throughout the short selling season. As sales are recorded, the Company makes provision for return charges based on historical results. These estimates are subject to significant adjustment once all customer reports are received and final return amounts are calculated following the end of the selling season.

RESULTS OF OPERATIONS

OVERALL PERFORMANCE

Fiscal Year Ending (\$000's)	June 30		September 30		
	2000	2001	2002	2003	2004
Sales	\$ 6,580	\$ 8,677	\$ 9,883	\$ 9,438	\$ 12,128
Gross Margin	5,054	6,638	6,452	6,003	7,712
	77%	77%	65%	64%	64%
Net Earnings	1,257	1,571	1,208	53	1,413
Total Assets	5,718	10,230	7,529	7,811	9,141
Long-term debt, including current portion	-	226	331	242	120
Return on Equity ¹	50%	41%	26%	1%	23%

Note 1: Equity is defined as opening shareholder's equity adjusted for changes in share capital in the fiscal year on a weighted average basis.

On the strength of a 28% increase in net sales, the Company reported net earnings for the year ended September 30, 2004 of \$1,412,950 representing \$0.43 per share as compared to earnings of \$53,381 or \$0.02 per share in the prior year. The dramatic increase over prior year results represents the second highest earnings result in the Company's entire twenty-four year history.

The sharp increase in earnings is attributable to sales gains across all product groups and all markets and new revenues arising from the successful introduction of new products, notably AGROTAIN and N-Prove liquid. The increase in earnings over the prior year is also due to increased investment tax credit and other support, a reduction in foreign currency losses, and certain one-time costs related to employee compensation expensed in 2003 that were not incurred in 2004.

Successful results further strengthened the Company's balance sheet and cash reserves at September 30, 2004 are now almost \$6 million. The achievement of solid earnings and sound treasury management also eliminated the need for any interim financing throughout the annual business cycle, a historic first for the Company.

SALES

Sales for the year ended September 30, 2004 amounted to \$12,128,094 as compared to the prior year of \$9,438,143 and overall increase of 28%. The year over year change was achieved on sales increases across all product lines.

Although JumpStart sales did not maintain a double digit growth rate, as has been the case of the last several years, other products made the difference, especially TagTeam which accounted for the majority of overall sales growth. The major upturn in TagTeam revenues is directly tied to a growing North American pulse market. Additional revenue gains arose on the beneficial impact of new products, particularly AGROTAIN and N-Prove Liquid.

While our TagTeam product line represents our primary market advantage, the Company continues to plan for changes. Initiatives in progress seek to expand our business beyond pulse markets to serve a wider range of crops, especially soybean and corn with all product groups.

COST OF SALES AND GROSS MARGIN

Cost of sales for the year amounted to \$4,416,143 (2003 – \$ 3,435,618) comprising the annual direct costs of production adjusted for changes in inventory, cost of distributed products, royalties and sales distribution costs. Total costs of sales generally increased in proportion to sales increases for all manufactured products, with some efficiency gains from lower product write-downs. This was offset by lower margins on third party product sales and resulted in a gross margin of 64%, virtually unchanged from the prior year.

Since most inoculants have only limited shelf life, earnings are negatively affected by inventory write-downs of unsold production and rejection of products that do not meet our stringent quality standards. For 2004, total product write-downs amounted to \$442,212 (2003 – \$500,282). The decline in product write-downs reflects the benefit of improved Commercial Operations procedures to match production with sales forecasts against a backdrop of a challenging production and supply cycle.

OPERATING COSTS

Total operating costs include all commercial operating expenses and strategic growth investment costs directed to development of new products, processes, and markets. Operating expenses, before other (income) expenses amounted to \$5,902,212 (2003 – \$5,450,160) an increase of \$452,052 over the prior year. This change is attributed to increases in general and administrative costs on higher salaries and benefits arising from new management hires, performance share payments and increased professional fees. Net Research and Business Development costs declined slightly as did Sales and Marketing costs, reflecting the benefit of higher third party support and tax credits, and a reduction in advertising and promotion spending.

RESEARCH AND BUSINESS DEVELOPMENT

Research and Business Development continue to represent a significant portion of total spending with net R&BD costs comprising 27% of total operating expenses. Consistent with our strategy of investing to grow beyond current products and current markets, gross R&D spending, before assistance support and investment tax credits, increased by almost 9% over the prior year. However, the benefit from increased support payments and higher tax credits resulted in a year over year decline in net R&BD expenses of 2%.

Recognizing the need to innovate to respond to market competition and to accomplish our growth plans, 2005 spending is expected to see increasing investment in total R&BD costs to meet our near term focus of delivering on key products that fit our market expansion. While these investments may be perceived as suppressing current earnings, the Company's past successes already reflect a handsome revenue payback of 8 to 1 on past cumulative R&D efforts dating from 1997. We remain confident of providing even better outcomes on current development project investments.

OTHER (INCOME) EXPENSES

Other (income) expenses are comprised of the sum of net interest earnings, sundry income, offset by foreign exchange losses. Prior year results also included certain retirement and severance costs of a non-recurring nature. Net interest earnings of \$86,981 (2003 - \$49,117) improved coincident with improving cash positions and reduced financing costs. Foreign currency losses of \$27,778 (2003 - \$88,231) arose due to exposure on US dollars held on rising sales in US markets. While the majority of all sales and costs are incurred in Canadian funds, sales in foreign markets continue to grow. The Company closely monitors treasury management risk to minimize exposure to foreign currencies.

INCOME TAXES

Increased earnings has naturally led to increase in tax expense with the current year reflecting a charge of \$469,145 (2003 - \$188,779). In offset, growth in our R&BD commitment resulted in sufficient investment tax credits to eliminate current income taxes otherwise payable. The Company still has additional investment tax credits available to reduce future taxes payable as set out in more detail in Note 13 to the financial statements.

Quarterly Results (\$000's, except earnings per share)	September 30, 2003					September 30, 2004				
	Q1	Q2	Q3	Q4	TOTAL	Q1	Q2	Q3	Q4	TOTAL
Sales	-	\$ 4,139	\$ 5,251	\$ 48	\$ 9,438	\$ 6	\$ 5,278	\$ 6,911	\$ (67)	\$12,128
Earnings (loss)	(1,272)	577	2,012	(1,264)	53	(1,333)	1,532	2,285	(1,071)	1,413
Basic Earnings (loss) per share	\$ (0.40)	\$ 0.18	\$ 0.62	\$ (0.38)	\$ 0.02	\$ (0.41)	\$ 0.47	\$ 0.70	\$ (0.33)	\$ 0.43

The Company's sales are seasonal, with the majority of sales realized during a very short period from late February to the end of May. In contrast, operating costs are generally incurred evenly over the year, with some fluctuation arising from certain seasonal activities related to field testing programs or sales and marketing initiatives. As a result, the Company generally records profitable earnings in only the second and third quarters of each fiscal year, although timing of customer purchases may vary, shifting earnings from one quarter to the other. As a result, interim results are not necessarily indicative of the results expected for the fiscal year. Due to uncertainty on annual outcomes until completion of the selling season, the Company makes no provision for income taxes until the end of the second quarter.

MOST RECENT QUARTERLY RESULTS

The loss for the most recent quarter ending September 30, 2004, is fully consistent with the above noted business cycle. Sales for the final quarter reflect a negative balance due to final adjustments on inventory support program payments. In addition fourth quarter expenses were affected by final adjustments to investment tax credit accruals and income tax expense.

ANALYSIS OF CASH FLOWS AND LIQUIDITY

Due to its unique business cycle, the Company is a net user of funds in the first and fourth quarter of each year since the majority of production and product acquisition costs are incurred early in the fiscal year combined with operating costs that are generally incurred evenly over the year. In offset, the majority of revenues are collected either at the end of January, arising from certain early payment incentives, or at the end of June. On the strength of improved cash reserves and marketing programs, for 2004 the Company did not require any short-term borrowing facilities throughout its entire fiscal year.

For the year ended September 30, 2004, the Company generated cash from operations, before changes in non-cash working capital of \$1,726,260 (2003 - \$397,517). Net investment in non-cash working capital items reduced this sum by \$614,882 reflecting the effect of normal timing differences associated with year over year changes in receivables, inventories, and payable accounts. Investment of capital comprised additions to equipment, leaseholds, and patents of \$315,758 (2003 - \$212,316) with almost half this amount expended on a new combine used by R&BD. The balance of equipment additions reflects normal upgrade or replacement in computer technology or manufacturing assets. Financing activities for the year reflect a reduction in long-term debt of \$122,238 offset by \$281,130 of proceeds from issuance of common shares. The net effect of all cash flow changes resulted in an overall increase in cash of \$954,512 and a year end cash and short-term investments balance of \$5,931,515.

FINANCIAL POSITION

The Company's year end balance sheet reflects a healthy working capital balance of \$6,662,716 and working capital ratio of 5.6 to 1 (2003 – 3.9 to 1). The most significant year-end asset is comprised of cash and short-term investments of \$5,931,515 (2003 – \$4,977,003) which represents 65% of total assets and 78% of total shareholders' equity.

Long-term assets are comprised of equipment, leaseholds, patents, trademarks and licenses and represent only 11% of total assets. Annual additions to long-term assets are generally funded from cash flows and are not usually significantly above annual amortization charges. For 2005, an increase in capital spending is expected as the Company is planning further investment in critical Research and Business Development equipment to expand its laboratory capacities.

As at September 30, 2004, total long-term debt, including current portion amounted to \$120,095 (2003 – \$242,332) related to term financing on certain equipment. Total debt-to-equity ratios are negligible.

During the past year, a total of 185,620 shares were issued from treasury on the exercise of certain stock options. As a result, the number of outstanding share options has declined to 211,522 and total issued shares outstanding as of September 30, 2004 have increased to 3,415,761 shares. Share options represent 6% of issued capital (2003 – 11%). A complete summary of outstanding share options is disclosed in Note 11 to the financial statements.

RELATED PARTIES

The Company currently has certain significant transactions with certain related parties. These transactions are in the normal course of operations and are transacted at fair market values. For further information see Note 15 in the consolidated financial statements.

OUTLOOK AND PERFORMANCE RISKS

Growing global food demand and its resultant demands on crop production coupled with rising energy costs that dramatically affect farmer input costs, all indicate tremendous potential for a continuing and increasing need for enhanced farm productivity tools. Additionally, we are increasingly aware of a quickening pace of innovation amongst our competitors, indicating their concurrence with our assessment of the potential of global agricultural input markets.

The 2005 outlook for our North American markets point to growth as awareness and use of inoculants or other crop fertility efficiency products drives farmers to seek the very best productivity enhancements. Our current products deliver on this promise. The Company is well positioned to continue double digit top-line growth.

All product groups are targeted to contribute to sales increases in 2005. In particular, having resolved many of the early integration and supply channel issues, AGROTAIN is expected to be a very much increased contributor to earnings in 2005.

For the next several years, North American pulse markets are expected to remain a significant revenue stream that sustains our earnings as well as funds investments in innovation. The strength of our primary markets has allowed us to springboard into a wider geographic area. The Company continues to build on its strategy of expanding our business in the United States and developing plans for other parts of the world. Our rapid and successful advance into the US market gives us additional confidence in our business model.

With a balanced plan to deliver superior annual return on equity, complete major development projects, and a strategy to enter new markets we are anxious to reward shareholders with sustainable growth and significant payback on their invested capital.

While no business can foresee or plan for every variance that may occur, we remain confident that we have chosen to build our 'Bridge to the Future' on a sound and balanced path to deliver shareholder value for years to come.

In serving an agricultural market, the Company faces a complex range of market and environment risks, many of which we have little control over. A summary of certain of our more significant risks include:

- Environmental Conditions: dramatic year to year changes in weather and growing conditions in our markets impact producer decisions that may lead to a reduction in the use of inoculant products and other inputs.
- Competition: the Company faces the ongoing risks that are typical of every competitive marketplace. These risks include pricing, competitive innovations, and control of supply or distribution channels.
- Regulatory and Political Framework: all of our products are subject to environmental and regulatory restrictions imposed by federal, provincial and state governments. In Canada, all products must meet stringent test, performance, and labeling conditions as approved by the Canadian Food Inspection Agency (CFIA). For the US market, products are generally regulated at the state level. While US regulations are generally perceived as less onerous, all government agencies have the authority to potentially delay approvals or withdraw our inoculant products from the market place.
- Other Factors: the Company must also manage various internal risk factors, including production supply and quality issues, credit risks, foreign currencies, and property liability exposure. These risks are mitigated by sound internal control processes and policies overseen by management.

FORWARD LOOKING STATEMENTS

This Annual Report to the Shareholders contains forward looking statements, which involve risks and uncertainties. A number of factors could cause actual results to differ materially from those in the forward-looking statements, including, but not limited to: economic and growing conditions in North American agriculture, changes in competitive pressures, government policy changes particularly with respect to regulatory approvals, changes in capital markets and the consequent effect on working capital supply, unforeseen barriers in new process and product systems, changes in shareholders or the capital structure of the Company, and changes in currency and exchange rates. The Company does not undertake any obligation to publicly update or revise any forward-looking statements.

Governance Statement



The Board's terms of reference ensure that the Board is responsible for contributing to and approving the strategic plan and annual budget, and monitoring performance; is aware of the principal risks of the corporation and the mitigation approaches of management for these risks; has reasonable assurance of the integrity of internal controls and management information systems; has determined that the Company meets or exceeds all applicable environmental laws and regulations; approves the audited financial statements, and documents for shareholder meetings; and has an appropriate communications policy.

As at September 30, 2004, other than the Chairman, all directors are non-management. One director previously served as a member of senior management.

The Board has three Standing Committees: Audit, Governance, and Compensation, each with a charter or terms of reference which are reviewed regularly. In accordance with regulatory requirements, the terms of reference of the Audit Committee were revised in the form of a Charter which was approved by the Board on December 10, 2004. The Board also establishes special purpose committees to perform specific duties as the need may arise from time to time.

The mandate of the Governance Committee includes responsibility for the nomination, orientation, and succession planning of Board members, and monitoring the performance of the Board, its members and its committees. Among its activities during the year the Committee recommended to the Board the position of Lead Director, and conducted a Board effectiveness survey which indicated general satisfaction with the operation and effectiveness of the Board.

The mandate of the Audit Committee includes responsibility for the relationship with the external auditor, the external financial reporting of the corporation, and overseeing the financial and legal risks of the corporation, and management's mitigation process for these risks, and the appropriateness of internal controls.

The mandate of the Compensation Committee includes an annual review of the performance of the President and CEO, and making recommendations to the Board on their respective compensation, reviewing the processes for evaluation and compensation of executives, and reviewing and recommending any employee incentive plans of the Company.

During the year the Board struck a Search Committee to lead the process to recruit the President of the Company and to make recommendations in that regard to the Board. The Search Committee was disbanded on the successful completion of its task.

Management's Responsibility for Financial Reporting

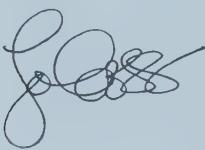
The management of Philom Bios Inc. is responsible for the preparation of the financial statements and related financial information included in this Annual Report. The financial statements have been prepared in conformity with Canadian generally accepted accounting principles, and necessarily include amounts based on management's informed judgments and estimates.

A system of internal accounting controls and management practices have been developed, and are maintained to provide reasonable assurance that the financial statements are reliable, and that assets are safeguarded.

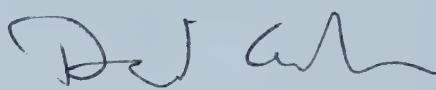
The Company's financial statements have been audited by Deloitte & Touche who were appointed by the shareholders. Their report for 2004 is included.

The Audit Committee of the Board of Directors, which is composed exclusively of outside directors, meets as necessary to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues. The Audit Committee meets with the auditors as it considers necessary.

These financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.



CEO



Chief Financial Officer

Auditor's Report

TO THE SHAREHOLDERS OF PHILOM BIOS INC.

We have audited the consolidated balance sheet of Philom Bios Inc. as at September 30, 2004 and the consolidated statements of earnings and retained earnings and of cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
November 12, 2004

Consolidated Statement of Earnings and Retained Earnings for the year ended September 30, 2004

	2004	2003
Sales	\$ 12,128,094	\$ 9,438,143
Cost of Sales	4,416,143	3,435,618
Gross Margin	7,711,951	6,002,525
Expenses		
Research and development (NOTE 7)	1,596,165	1,619,975
Marketing and sales	2,661,579	2,582,359
General and administrative	1,644,468	1,247,826
Other (income) expenses (NOTE 12)	(72,356)	310,205
	5,829,856	5,760,365
Earnings Before Income Taxes	1,882,095	242,160
Income Taxes (NOTE 13)		
Current expense	(469,145)	(188,779)
Net Earnings	1,412,950	53,381
Retained Earnings, Beginning of Year	544,290	490,909
Retained Earnings, End of Year	\$ 1,957,240	\$ 544,290
Basic Earnings per share (NOTE 11)	\$ 0.43	\$ 0.02

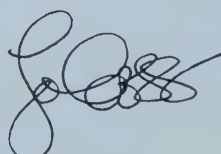
Consolidated Balance Sheet
as at September 30, 2004

	2004	2003
Current Assets		
Cash and short-term deposits	\$ 5,931,515	\$ 4,977,003
Accounts receivable	253,486	144,726
Inventories (NOTE 4)	1,796,032	1,591,014
Prepays and deposits	146,868	87,324
	<u>8,127,901</u>	<u>6,800,067</u>
Equipment and Leaseholds (NOTE 5)	893,891	901,075
Other Assets (NOTE 6)	119,195	109,562
	<u>\$ 9,140,987</u>	<u>\$ 7,810,704</u>
Current Liabilities		
Accounts payable and accrued charges	\$ 1,292,691	\$ 1,469,446
Deferred development assistance (NOTE 8)	108,734	173,539
Current portion of long term debt (NOTE 10)	63,760	96,201
	<u>1,465,185</u>	<u>1,739,186</u>
Long Term Debt (NOTE 10)	56,335	146,131
	<u>1,521,520</u>	<u>1,885,317</u>
Shareholders' Equity		
Share capital (NOTE 11)		
Authorized:		
Unlimited number of common shares		
Issued:		
3,415,761 common shares		
(2003 - 3,230,141)	5,662,227	5,381,097
Retained earnings	1,957,240	544,290
	<u>7,619,467</u>	<u>5,925,387</u>
	<u>\$ 9,140,987</u>	<u>\$ 7,810,704</u>

Approved by the Board



Director



Director

Consolidated Statement of Cash Flows for the year ended September 30, 2004

	2004	2003
Cash Flows from (used in) the Following Activities		
Operating		
Net earnings	\$ 1,412,950	\$ 53,381
Adjustment for amortization	313,310	344,136
	<u>1,726,260</u>	<u>397,517</u>
Changes in non-cash working capital		
Accounts receivable	(108,760)	126,399
Income taxes receivable	—	200,000
Inventories	(205,018)	(97,301)
Prepays and deposits	(59,544)	41,088
Accounts payable and accrued charges	(176,755)	371,480
Deferred development assistance	(64,805)	(84,762)
	<u>1,111,378</u>	<u>954,421</u>
Investing		
Additions to equipment and leaseholds	(301,493)	(212,189)
Recovery (additions) of other assets	(14,265)	53
	<u>(315,758)</u>	<u>(212,136)</u>
Financing		
Repayment of long term debt	(122,238)	(88,183)
Proceeds from issuance of common shares	281,130	29,760
	<u>158,892</u>	<u>(58,423)</u>
Net Increase in Cash	<u>954,512</u>	<u>683,862</u>
Cash Position, Beginning of Year	<u>4,977,003</u>	<u>4,293,141</u>
Cash Position, End of Year	<u>5,931,515</u>	<u>4,977,003</u>
Supplemental Disclosure of Cash Flows Information		
Interest paid	13,029	38,640
Income taxes paid	—	—
Income taxes received	—	200,000

Notes to the Consolidated Financial Statements year ended September 30, 2004

1. DESCRIPTION OF BUSINESS

Philom Bios Inc. is incorporated under the Business Corporations Act of Saskatchewan. The Company researches, develops, manufactures and sells microbial inoculants to serve the needs of farmers.

These statements are presented on a consolidated basis. The Company's wholly owned US subsidiary is accounted for using the temporal method. Under this method, monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet dates. Non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at average rates for the period. Translation exchange gains or losses are reflected in net earnings. Intercompany balances and transactions have been eliminated.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following policies:

INVENTORIES

Inventories are valued at the lower of cost and net realizable value.

EQUIPMENT AND LEASEHOLDS

Furniture and equipment are stated at cost and are amortized on the declining-balance method. Leasehold improvements are stated at cost and are amortized on a straight-line basis over the term of the lease.

PATENTS, TRADEMARKS AND LICENSES

Patents, trademarks and licenses are stated at cost. Patents are amortized on the straight-line method over seven years from the commencement of commercial production of the related products. Trademarks are amortized on the straight-line method over forty years. Licenses are amortized on the straight-line method over ten years.

INCOME TAXES

The Company uses the liability method of tax allocation for accounting for income taxes as provided for in the recommendations of the Canadian Institute of Chartered Accountants. Under the liability method of tax allocation, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and are measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

RESEARCH AND DEVELOPMENT

The Company expenses research and development costs as incurred.

2. SIGNIFICANT ACCOUNTING POLICIES – continued

LEASES

Leases entered into by the Company as lessee that transfer substantially all the benefits and risks of ownership to the lessee are recorded as capital leases and included in fixed assets and long-term debt. All other leases are classified as operating leases under which leasing costs are recorded as expenses in the period in which they are incurred.

REVENUE RECOGNITION

The Company recognizes revenue from the sale of goods when the goods have been shipped. Deferred development assistance is taken into income in the period in which the related expenses have been incurred.

USE OF ESTIMATES

The preparation of the consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

STOCK OPTIONS

The Company has employee, officer and director stock option plans. Under the CICA standard the Company is allowed to continue its existing policy of recording no compensation cost on the granting of stock options to employees. The Company is required to disclose the effect on net earnings (see Note 11).

3. FINANCIAL INSTRUMENTS

The Company transacts the majority of its sales with a small number of large distributors in the agricultural supply sector under normal industry credit terms. The Company is not dependent on any single customer. The Company believes that end users of the products would redirect their purchases to another source if one of these large distributors failed. The specific impact of a potential failure has not been assessed but the overall risk is a consideration in the ongoing relationships with these distributors.

A portion of the Company's revenues and expenditures are denominated in US dollars. The Company is exposed to currency fluctuations on transactions denominated in US dollars and the potential currency fluctuations may impact on the profitability of the Company. This risk is managed, from time to time, through the use of foreign exchange forward contracts to fix the exchange rates on future net foreign currency cash flows. The Company does not hold or issue derivative contracts for speculative or trading purposes.

Notes to the Consolidated Financial Statements year ended September 30, 2004 Continued

3. FINANCIAL INSTRUMENTS - continued

As at September 30, 2004, the Company has no foreign currency forward contracts.

The carrying values of cash and short-term deposits, accounts receivable, accounts payable, accrued liabilities and long term debt approximate their respective fair values.

4. INVENTORIES

	<u>2004</u>	<u>2003</u>
Raw materials and work-in-progress	\$ 1,587,869	\$ 1,529,392
Finished goods	208,163	61,622
	<u>\$ 1,796,032</u>	<u>\$ 1,591,014</u>

5. EQUIPMENT AND LEASEHOLDS

	Rates	Cost	Accumulated Amortization	Net Book Value <u>2004</u>	<u>2003</u>
Furniture and fixtures	20%	\$ 117,068	\$ 61,504	\$ 55,564	\$ 15,733
Computer and laboratory equipment	20-50%	1,072,274	595,745	476,529	345,201
Automotive equipment	30%	29,700	24,791	4,909	7,013
Production equipment	25-30%	915,144	671,006	244,138	352,596
Leasehold improvements	Lease term	342,875	230,124	112,751	180,532
		<u>\$ 2,477,061</u>	<u>\$ 1,583,170</u>	<u>\$ 893,891</u>	<u>\$ 901,075</u>

The above includes equipment under capital leases with a cost of \$318,811 and accumulated amortization of \$218,472 (2003 - \$172,557).

Amortization of \$301,127 has been expensed during the year (2003 - \$334,255). This includes \$45,915 (2003 - \$65,592) of amortization relating to equipment under capital leases.

6. OTHER ASSETS

	<u>2004</u>	<u>2003</u>
Patents	\$ 89,469	\$ 89,528
Trademarks	103,155	103,155
Licenses	14,325	-
	<u>206,949</u>	<u>192,683</u>
Accumulated amortization	87,754	83,121
	<u>\$ 119,195</u>	<u>\$ 109,562</u>

Amortization of \$4,633 has been expensed during the year (2003 - \$9,644).

7. RESEARCH AND DEVELOPMENT

	<u>2004</u>	<u>2003</u>
Direct research and development	\$ 2,122,953	\$ 1,954,782
Research and development assistance	(159,304)	(43,703)
Benefit from investment tax credit	(367,484)	(291,104)
Research and development	<u>\$ 1,596,165</u>	<u>\$ 1,619,975</u>

Assistance includes amounts described in Note 8 in addition to government grants of \$94,499 (2003 - \$Nil) which carry no terms and conditions and are not repayable. Investment tax credits related to research and development for the current and prior year were used to reduce income taxes payable.

8. DEFERRED DEVELOPMENT ASSISTANCE

The Company has received \$98,000 from AgWest Biotech Inc. as a contribution towards a research and development project. At year end, \$28,786 (2003 - \$28,786) of this amount has not been expended, and is shown as a deferred liability. An amount of up to \$150,000 is contingently payable to AgWest Biotech Inc. as a percentage of sales of the product under development. As at September 30, 2004 there is no amount due under this contingency.

The Company has received \$220,000 from an unrelated company as a contribution towards a cooperative research and development project. At year end, \$79,948 (2003 - \$144,753) of this amount has not been expended, and is shown as a deferred liability.

Notes to the Consolidated Financial Statements year ended September 30, 2004 Continued

9. COMMITMENTS

The future minimum lease payments under operating leases for the Company are as follows:

2005	\$ 413,115
2006	181,674
	<u>\$ 594,789</u>

The Company has committed \$20,000 per year for the next 3 years to an unrelated association for program sponsorship.

The Company has committed to purchase a minimum of \$526,800 of product for resale prior to September 16, 2005 from a related party at a market price.

10. LONG TERM DEBT

The Company has obligations under capital leases of \$ 120,095 (2003 - \$ 181,976) at interest rates ranging from 6.69% to 9.98% all maturing by 2007. During the year the Company paid interest relating to capital leases of \$ 11,598 (2003 - \$ 16,430).

The repayments over the next 3 years by the Company are as follows:

	Capital Leases (Gross)
2005	\$ 70,102
2006	44,282
2007	14,760
	<u>129,144</u>
Less interest	(9,049)
Less current portion	(63,760)
	<u>\$ 56,335</u>

11. SHARE CAPITAL

A) STOCK OPTIONS

The effect of applying the fair value method of accounting for stock options granted during the year on earnings is \$Nil (2003 – \$Nil).

Employee and Officer Stock Options

During the year, officers of the Company exercised 170,000 stock options at \$1.50. Employees exercised 540 stock options at \$1.50 and 1,080 stock options at \$4.00. During the year, 171,620 common shares (2003 – 10,240) were issued for cash consideration of \$260,130 (2003 – \$20,760).

During the year, 46,250 options vested. At September 30, 2004, 157,522 (2003 – 287,212) stock options were outstanding and vested and there are no unvested options (2003 – 16,250). Options outstanding consist of 56,080 exercisable at \$4.00 and 101,442 exercisable at \$1.50. If not exercised, all outstanding options expire over the period December 31, 2004 to February 15, 2009.

	Number of Options	
	2004	2003
Balance, beginning of period	303,462	348,354
Options allotted during period	30,000	-
Options cancelled during period	(4,320)	(34,652)
Options exercised during period	(171,620)	(10,240)
Balance, end of period	157,522	303,462

Director Stock Options

Directors may exercise options at any time, subject to expiry dates and within 90 days after ceasing to be a director. Options were granted during the year at \$4.00 per share (2003 – \$4.00 per share).

During the year, directors of the Company exercised 14,000 options at \$1.50. As a result 14,000 common shares (2003 – 6,000) were issued for cash consideration of \$21,000 (2003 – \$9,000).

Options outstanding consist of 40,000 exercisable at \$4.00 and 14,000 exercisable at \$1.50. If not exercised, all outstanding options expire February 15, 2009.

Notes to the Consolidated Financial Statements year ended September 30, 2004 Continued

11. SHARE CAPITAL – continued

	Number of Options	
	<u>2004</u>	<u>2003</u>
Balance, beginning of period	\$ 54,000	\$ 48,000
Options allotted during period	14,000	16,000
Options cancelled during period	–	(4,000)
Options exercised during period	(14,000)	(6,000)
Balance, end of period	<u>\$ 54,000</u>	<u>\$ 54,000</u>

B) EARNINGS PER SHARE

Earnings per share is calculated using after tax net income and the weighted average number of shares outstanding during the period, which was 3,283,540 (2003 – 3,222,217).

The calculation of diluted earnings per share has not been shown, as it requires the use of market values, which are not available for the Company.

12. OTHER (INCOME) EXPENSES

	<u>2004</u>	<u>2003</u>
Accrued retirement and severance	\$ –	\$ 271,091
Interest expense	7,677	24,509
Interest income	(94,658)	(73,626)
Foreign exchange loss	27,778	88,231
Other	(13,153)	–
	<u>\$ (72,356)</u>	<u>\$ 310,205</u>

13. INCOME TAXES

Accumulated research and development expenditures of \$630,918 (2003 – \$325,241) were used to reduce current taxable income. Federal and provincial tax credits of \$469,145 (2003 – \$188,779) were used to reduce tax payable.

Federal and provincial investment tax credits of \$337,608 (2003 – \$409,259) are available for the reduction of future tax payable and begin to expire in 2010.

No recognition has been given in these consolidated financial statements for future tax assets relating to the above items.

14. CONTINGENCY

In February, 1997, Dow AgroSciences Canada Inc. (formerly DowElanco Canada Inc.) filed a claim against the Company for the right to sell some Provide inventory which was past its expiry date and for damages in the sum of \$2,000,000, interest, and costs. The Company has filed a counterclaim for damages in the sum of \$5,000,000, interest, and costs for damage to the Company's business and product reputation arising from the attempts by DowElanco Canada Inc. to sell the expired inventory. At this time legal counsel has not given a final opinion with respect to the possible outcome of the claim and counterclaim. Any gain or loss will be recorded at the time of settlement, and legal fees are recognized as they are incurred.

The Company is from time to time involved in various claims or complaints arising in the ordinary course of business. The Company does not believe that any amounts which it may be required to pay by reason thereof, will have material adverse effect on the financial condition or future results of operations.

15. RELATED PARTY TRANSACTION

The Company leases manufacturing and warehouse facilities from a company owned by a shareholder. The Company incurred fees for consulting services provided by a Director. These transactions are in the normal course of operations and are measured at the exchange amount, which represents market value.

16. COMPARATIVE FIGURES

Certain of the comparative figures have been restated to conform to current year's presentation.

Philom Bios Board of Directors 2004



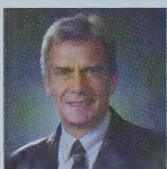
Garth Bell, Director

A Director since 2000, Mr. Bell is General Manager of Spruce View Co-operative, in Spruce View, Alberta. Previously, Mr. Bell held progressively senior positions with Saskatchewan Wheat Pool from 1976 to 2000, completing his tenure as General Manager, Agri-Products Group.



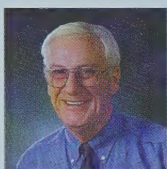
Beverley Brennan, Director

Beverley Brennan, F.C.A., joined the Company in 1987, held the office of Vice President Finance from 1988 to 2000, and served as Corporate Secretary from 1990 to November 2003. Appointed to the Philom Bios Board in 1998, Ms. Brennan has held executive positions in the Canadian Institute of Chartered Accountants, including Chair in 1998/99, and is currently a Director of several Canadian companies and institutes.



Wayne Brownlee, Director

Wayne Brownlee has been a Director of Philom Bios since 1992. Mr. Brownlee is Senior Vice President, and CFO, Potash Corporation of Saskatchewan. PCS is the world's largest producer of crop nutrients and a leading global supplier of N.P.K. for animal feed and industrial uses.



John Cross, CEO and Chairman

A founding partner of the Company in 1980, Mr. Cross brings 40 years of research and business development experience in the food, agriculture, and biology industries to the Board table.



George Khachatourians, Director

Dr. Khachatourians is the President of Khachatourians Enterprises Inc., a biotechnology firm, and was a co-founder of Philom Bios in 1980. An internationally recognized and prolific biological scientist, he has been a Professor of Microbiology in the Colleges of Medicine and Agriculture, University of Saskatchewan since 1974. He is the founder and coordinator of Center for Molecular Agriculture and Applied Biotechnology, and is currently Head, Department of Applied Microbiology and Food Science, College of Agriculture.



Rod Merryweather, Director

Director of Sales, Canada, Bayer CropScience Inc. in Calgary, Mr. Merryweather has over 25 years of operational and senior management experience in the crop protection sector of Canadian agriculture. Mr. Merryweather joined the Board in 2003.



Richard Stegmann, Director

Chairman of Lange-Stegmann Co., a Missouri-based wholesaler of agricultural, professional and industrial fertilizers, Mr. Stegmann has been a Director since 1998. Founded in 1926, Lange-Stegmann is a leading distributor of fertility products throughout the US Central States.



Rodney Wiens, Director

A prominent farmer in the Herschel district West of Saskatoon, Mr. Wiens has been active in Saskatchewan Wheat Pool member affairs for many years and was a Director of Saskatchewan Wheat Pool from 1997 to 2001. Mr. Wiens joined the Philom Bios Board in 1997.



Gregory Yuel, Director

Gregory Yuel is the Vice President and COO of PIC Investment Group Inc., a privately owned investment holding company with interests in a group of related, diversified companies in the chemical, petroleum, transportation, packaging and property management industries. Mr. Yuel joined the Philom Bios Board in 2002.

Notice of Meeting

The Annual General Meeting of Shareholders will be held on Monday, February 14, 2005 at The Saskatoon Club, 417 21st Street East, Saskatoon, Saskatchewan at 11:30 a.m. (Central Standard Time). The Financial Statements for the 12 month period ending September 30, 2004 will be presented and management will review corporate developments to date. All shareholders are encouraged to attend, but if unable to do so, shareholders are requested to complete, sign and return to the Company the provided form of proxy.

Corporate Information

Board of Directors

John Cross
CEO, Chairman
Philom Bios Inc.
Saskatoon, Saskatchewan

Garth Bell ^{1/2}
General Manager
Spruce View Co-operative Association
Spruce View, Alberta

Beverley Brennan ^{1/3}
Director
Edmonton, Alberta

Wayne Brownlee ^{1/2}
Senior Vice President
Chief Financial Officer
Potash Corporation of Saskatchewan Inc.
Saskatoon, Saskatchewan

George Khachatourians ³
President
Khachatourians Enterprises Inc.
Saskatoon, Saskatchewan

Richard Stegmann ³
Chairman
Lange-Stegmann Co.
St. Louis, Missouri USA

Rod Merryweather ²
Director of Sales, Canada
Bayer Crop Science, Calgary, Alberta

Rodney Wiens ³
Farmer
Herschel, Saskatchewan

Greg Yuel ¹
Vice President and COO
PIC Investment Group Inc.
Saskatoon, Saskatchewan

David Cortens
Chief Financial Officer
and Corporate Secretary

Sanford Gleddie
Vice President
Research and Business Development

Trevor Thiessen
Vice President
Commercial Operations

Head Office

#318 - 111 Research Drive
Saskatoon, Saskatchewan
Canada S7N 3R2

Solicitors

McDougall Gauley
Saskatoon, Saskatchewan

Officers

John Cross
CEO, Chairman

Calvin Sonntag
President (from February 16, 2004)

Bankers

TD Canada Trust
Saskatoon, Saskatchewan

Registrar and Transfer Agent

CIBC Mellon Trust Company
Winnipeg, Manitoba

Auditors

Deloitte & Touche LLP
Saskatoon, Saskatchewan

¹ Audit Committee

² Compensation Committee

³ Corporate Governance Committee

Thank You

Our continued success is made possible because of support from many sources. On behalf of the shareholders we record our appreciation to North America's farmers, our ultimate customers, for the confidence and trust in our people and products, to our distributors and retailers who recommend our products to North America's farmers, to our technology partners and collaborators in many scientific communities, to our business service providers, and to the Board of Directors who guide the strategic development of our Company with the highest standards of corporate governance.

Every staff member helped achieve this year's impressive gains. In addition to creating wealth for our customers, the staff continue to make diverse contributions to our communities whether it be through participation in professional bodies, sports organizations, volunteer firefighters, Joints in Motion, and numerous scientific and education organizations including READ Saskatoon, 4H, Agriculture in the Classroom, and Saskatoon Science Fair. To every one of our 70 colleagues – Thank You.



Philom Bios
the inoculant company

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